

CITY OF AUDUBON
INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2011

Table of Contents

	<u>Page</u>
Officials	3
Independent Auditors' Report	5-6
Management's Discussion and Analysis	7-10
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statement:	
Statement of Activities and Net Assets – Cash Basis	A 12-13
Governmental Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B 14-15
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets	C 16
Proprietary Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	D 17
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets	E 18
Notes to Financial Statements	20-28
Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds	31-32
Notes to Required Supplementary Information – Budgetary Reporting	33
Other Supplementary Information:	<u>Schedule</u>
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Governmental Funds	1 35-36
Schedule of Indebtedness	2 37-38
Bond and Note Maturities	3 39-40
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	4 41-42
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	44-45
Schedule of Findings	46-48

City of Audubon

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Clark Kauffman	Mayor	January 2012
Robert Jacobsen	Council Member	January 2012
John Whetzal	Council Member	January 2012
Delyte Borkowski	Council Member	January 2014
Andy Griffith	Council Member	January 2014
Teresa Murray	Council Member	January 2014
Lora Hansen	City Clerk	Indefinite
Lance Levis	Attorney	Indefinite

City of Audubon



Marilyn Schroer, CPA
Diane McGrain, CPA
Jim Menard, CPA

November 16, 2011

Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Audubon, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Audubon's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Audubon as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Continued...

omni business centre
300 west broadway, suite 41
council bluffs, iowa 51503
712•322•8734 / fax 712•322•4699
www.schroer-cpa.com

Independent Auditors' Report
City of Audubon

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 16, 2011 on our consideration of the City of Audubon's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 10 and 30 through 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Audubon's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the six years ended June 30, 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Schaefer & Associates, P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Audubon provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased \$140,249 from fiscal year 2010 to fiscal year 2011. Property tax collections increased \$128,188. Tax increment financing collections decreased \$81,761. Intergovernmental receipts increased \$95,139.
- Disbursements of the City's governmental activities increased \$68,329 in fiscal year 2011 from fiscal year 2010. Public works decreased \$166,008, and general government increased \$219,829.
- The City's total cash basis net assets increased \$113,469, from June 30, 2010 to June 30, 2011. Of this amount, the assets of the governmental activities increased \$138,779 and the assets of the business type activities decreased by \$25,310.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.
- The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.
- Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.
- Other Supplementary Information provides detailed information about the non-major governmental funds.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principals. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

GOVERNMENT-WIDE FINANCIAL STATEMENT

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

FUND FINANCIAL STATEMENTS

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: General Fund, Special Revenue Funds, (such as Road Use Tax and Local Option Sales Tax), Debt Service Fund and the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2. Proprietary funds account for the City's Enterprise Funds and for the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The following table shows the changes in cash balances for governmental activities.

RECEIPTS	FY 2011	FY 2010
Property taxes	826,772	697584
Tax increment financing	46,293	128054
Other city tax	230,636	213365
Licenses & permits	2,157	793
Use of money & property	20,832	27359
Intergovernmental	542,684	447545
Charges for services	243,149	229816
Special assessments	942	6007
Miscellaneous	55,676	95015
Other financing sources	67,647	51000
TOTALS	<u>\$2,036,787</u>	<u>\$1896538</u>
DISBURSEMENTS		
Public safety	350,822	340427
Public works	693,929	859937
Culture & recreation	247,277	240922
Community & economic development	51,097	43488
General government	302,957	83128
Debt service	253,030	255225
Capital projects	0	7656
TOTALS	<u>\$1,899,112</u>	<u>\$1830783</u>
Net change in cash balances	137,675	65755
Cash balance beginning of year	<u>937,210</u>	<u>871455</u>
Cash balance end of year	<u>\$1,074,885</u>	<u>\$937210</u>

The City's total receipts for governmental activities increased \$140,249. The total cost of all programs and services increased \$68,329. Both increases can be attributed to a federally funded housing program.

Property tax collections increased by \$128,188 from FY10 to FY11.

The following table shows the changes in cash balances for business-type activities.

RECEIPTS	FY 2011	FY 2010
Charges for services	591,406	551581
Use of money & property	905	1960
Intergovernmental	5,385	0
Miscellaneous	37,406	35695
TOTALS	<u>\$635,102</u>	<u>\$589236</u>
DISBURSEMENTS		
Water	230,364	215555
Sewer	380,823	372558
Transfers out	50,000	50000
TOTALS	<u>\$661,187</u>	<u>\$638113</u>
Net change in cash balance	(26,085)	(48877)
Cash balance beginning of year	<u>165,116</u>	<u>213993</u>
Cash balance end of year	<u>\$139,031</u>	<u>\$165116</u>

The business-type activities receipts increased by \$45,866. Expenditures increased by \$23,074.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Audubon completed the year, its governmental funds reported a combined fund balance of \$1,074,885, an increase of \$137,675 from last year. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$77,127 from the prior year to \$467,388.
- The Road Use Tax fund cash balance increased by \$13,825 to \$11,994 during the fiscal year.
- The Employee Benefits Fund increased \$58,137 to \$6,621.
- The Local Option Sales Tax Fund cash balance increased \$23,112 to \$386,600. The City intends to use this fund for future street construction projects.
- The Capital Projects Fund remained at \$186,162.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund cash balance decreased by \$15,541 and the Sewer Fund decreased by \$10,544.

BUDGETARY HIGHLIGHTS

The City amended its budget once during the year, in May, 2011. The expenditure budget was increased by \$199,175 and the receipt budget was increased by \$285,567. Both the expenditure and revenue increases can be attributed to funds received and disbursed through a Neighborhood Stabilization Program Grant.

DEBT ADMINISTRATION

On June 30, 2011, the City had \$3,311,000 in bonds and other long-term debt, compared to \$3,605,000 last year, as shown below.

	<u>6-30-11</u>	<u>6-30-10</u>
General obligation bonds & notes	1,375,000	1,485,000
TIF revenue bonds	205,000	270,000
Sewer revenue notes	<u>1,731,000</u>	<u>1,850,000</u>
TOTALS	<u>\$3,311,000</u>	<u>\$3,605,000</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed valuation of taxable property. The City's outstanding general obligation debt (general obligation plus TIF) of \$1,580,000 is well below the constitutional debt limit of \$3,822,932.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's officials consider local needs and wants, and the overall economy when setting the budget and tax rates for 2011. The City has been at the \$8.10 General Fund tax limit for several years, which makes it difficult to maintain the parts of the government that are paid from the General Fund (police, fire, parks, pool, cemetery, city hall and administration). The up and down fluctuations in property values also contribute to budgeting difficulties and can make the tax rates vary a great deal from year to year.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, contact Lora Hansen, City Clerk, 410 North Park Place, Audubon, Iowa 50025.

City of Audubon
Basic Financial Statements

City of Audubon
Statement of Activities and Net Assets – Cash Basis
As of and for the year ended June 30, 2011

		Program Receipts	
		Charges for Service	Operating Grants Contributions and Restricted Interest
	Disbursements		
Functions/Programs:			
Governmental activities:			
Public safety	\$ 350,033	2,290	13,762
Public works	693,642	206,525	265,807
Culture and recreation	247,277	49,683	50,786
Community and economic development	51,097	942	-
General government	302,929	2,157	267,057
Debt service	253,030	-	-
Total governmental activities	1,898,008	261,597	597,412
Business type activities:			
Water	230,317	231,388	4,752
Sewer	380,095	360,018	633
Total business type activities	610,412	591,406	5,385
Total	\$ 2,508,420	853,003	602,797

General Receipts:

Property tax levied for:
 General purposes
 Employee benefits
 Debt service
 Tax increment financing
 Local option sales tax
 Grants and contributions not restricted to specific purpose
 Unrestricted interest on investments
 Miscellaneous
 Sale of assets
 Transfers
 Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

Restricted:

Nonexpendable:
 Cemetery perpetual care

Expendable:

Employee benefits
 Street construction and repair
 Capital projects
 Other purposes

Unrestricted

Total cash basis net assets

See notes to financial statements.

Net (Disbursement) Receipts and Changes in
Cash Basis Net Assets

Governmental Activities	Business Type Activities	Total
(333,981)	-	(333,981)
(221,310)	-	(221,310)
(146,808)	-	(146,808)
(50,155)	-	(50,155)
(33,715)	-	(33,715)
(253,030)	-	(253,030)
(1,038,999)	-	(1,038,999)
-	5,823	5,823
-	(19,444)	(19,444)
-	(13,621)	(13,621)
(1,038,999)	(13,621)	(1,052,620)
\$ 466,506	-	466,506
251,247	-	251,247
178,258	-	178,258
46,293	-	46,293
161,397	-	161,397
2,828	-	2,828
735	905	1,640
2,867	37,406	40,273
17,647	-	17,647
50,000	(50,000)	-
1,177,778	(11,689)	1,166,089
138,779	(25,310)	113,469
935,176	174,296	1,109,472
\$ 1,073,955	148,986	1,222,941
\$ 104,398	-	104,398
6,621	-	6,621
398,594	-	398,594
186,162	-	186,162
51,314	-	51,314
326,866	148,986	475,852
\$ 1,073,955	148,986	1,222,941

City of Audubon
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances - Governmental Funds
As of and for the year ended June 30, 2011

		Special Revenue		
	General	Road Use Tax	Employee Benefits	Local Option Sales Tax
Receipts				
Property tax	\$ 419,299	-	238,173	-
Tax increment financing collections	-	-	-	-
Other city tax	47,207	-	13,074	161,397
Licenses and permits	2,157	-	-	-
Use of money and property	20,832	-	-	-
Intergovernmental	286,364	256,320	-	-
Charges for service	243,148	-	-	-
Special assessments	-	-	-	-
Miscellaneous	43,295	5,253	-	-
Total receipts	<u>1,062,302</u>	<u>261,573</u>	<u>251,247</u>	<u>161,397</u>
Disbursements				
Operating:				
Public safety	266,483	-	84,339	-
Public works	214,706	247,748	93,190	138,285
Culture and recreation	239,990	-	2,862	-
Community and economic development	29,155	-	-	-
General government	290,238	-	12,719	-
Debt service	-	-	-	-
Total disbursements	<u>1,040,572</u>	<u>247,748</u>	<u>193,110</u>	<u>138,285</u>
Excess (deficiency) of receipts over (under) disbursements	21,730	13,825	58,137	23,112
Other financing sources:				
Sale of general fixed assets	5,397	-	-	-
Operating transfers in	50,000	-	-	-
Total other financing sources	<u>55,397</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in cash balances	77,127	13,825	58,137	23,112
Cash balances beginning of year	<u>390,261</u>	<u>(1,831)</u>	<u>(51,516)</u>	<u>363,488</u>
Cash balances end of year	<u>\$ 467,388</u>	<u>11,994</u>	<u>6,621</u>	<u>386,600</u>
Cash Basis Fund Balances				
Nonexpendable – cemetery perpetual care	\$ -	-	-	-
Restricted for:				
Streets	-	11,994	-	386,600
Employee benefits	-	-	6,621	-
Capital projects	-	-	-	-
Other purposes	-	-	-	-
Assigned for park projects	101,839	-	-	-
Unrestricted	<u>365,549</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total cash basis fund balances	<u>\$ 467,388</u>	<u>11,994</u>	<u>6,621</u>	<u>386,600</u>

See notes to financial statement

Exhibit B

Capital Projects	Nonmajor	Total
-	169,300	826,772
-	46,293	46,293
-	8,958	230,636
-	-	2,157
-	-	20,832
-	-	542,684
-	-	243,148
-	942	942
-	7,128	55,676
-	232,621	1,969,140
-	-	350,822
-	-	693,929
-	4,425	247,277
-	21,942	51,097
-	-	302,957
-	253,030	253,030
-	279,397	1,899,112
-	(46,776)	70,028
-	12,250	17,647
-	-	50,000
-	12,250	67,647
-	(34,526)	137,675
186,162	50,646	937,210
186,162	16,120	1,074,885
-	104,398	104,398
-	-	398,594
-	-	6,621
186,162	-	186,162
-	51,314	51,314
-	-	101,839
-	(139,592)	225,957
186,162	16,120	1,074,885

City of Audubon
 Reconciliation of the Statement of Cash
 Receipts, Disbursements and Changes in Cash Balances
 to the Statement of Activities and Net Assets -
 Governmental Funds
 As of and for the year ended June 30, 2011

Total governmental funds cash balances	\$ 1,074,885
---	--------------

Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the cost of partial self funding of the City's health insurance benefit plan to individual funds. The assets of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.

(930)

Cash basis net assets of governmental activities	\$ <u>1,073,955</u>
---	---------------------

Net change in cash balances	\$ 137,675
------------------------------------	------------

Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the cost of employee health benefits to individual funds. The change in net assets of the Internal Service Fund is reported with governmental activities.

1,104

Change in cash balance of governmental activities	\$ <u>138,779</u>
--	-------------------

City of Audubon
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2011

	Enterprise Funds			Internal Service Fund
	Water	Sewer	Total	Employee Health
Operating receipts:				
Use of money and property	\$ -	-	-	5
Charges for service	231,388	360,018	591,406	87,359
Total operating receipts	231,388	360,018	591,406	87,364
Operating disbursements:				
Governmental activities:				
Public safety	-	-	-	35,898
Public works	-	-	-	13,048
General government	-	-	-	1,290
Business type activities	230,364	206,323	436,687	35,249
Total operating disbursements	230,364	206,323	436,687	85,485
Excess (deficiency) of operating receipts over (under) operating disbursements	1,024	153,695	154,719	1,879
Non-operating receipts:				
Interest on investments	255	650	905	-
Intergovernmental	4,752	633	5,385	-
Miscellaneous	28,428	8,978	37,406	-
Debt service	-	(174,500)	(174,500)	-
Total non-operating receipts	33,435	(164,239)	(130,804)	-
Excess (deficiency) of receipts over (under) disbursements	34,459	(10,544)	23,915	1,879
Other financing sources (uses):				
Operating transfers out	(50,000)	-	(50,000)	-
Net change in cash balances	(15,541)	(10,544)	(26,085)	1,879
Cash balances beginning of year	167,028	(1,912)	165,116	7,146
Cash balances end of year	\$ 151,487	(12,456)	139,031	9,025
Cash Basis Fund Balances				
Unrestricted	\$ 151,487	(12,456)	139,031	9,025

See notes to financial statements

City of Audubon
 Reconciliation of the Statement of Cash Receipts, Disbursements
 and Changes in Cash Balances
 to the Statement of Activities and Net Assets –
 Proprietary Funds
 As of and for the year ended June 30, 2011

Total enterprise funds cash balances	\$ 139,031
---	------------

Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the cost of partial self funding of the City's health insurance benefit plan to individual funds. The assets of the Internal Service Fund are included in business type activities in the Statement of Net Assets.

9,955

Cash basis net assets of business type activities	\$ <u>148,986</u>
--	-------------------

Net change in cash balances	\$ (26,085)
------------------------------------	-------------

Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the cost of employee health benefits to individual funds. The change in net assets of the Internal Service Fund is reported with business type activities.

775

Change in cash balance of business type activities	\$ <u>(25,310)</u>
---	--------------------

City of Audubon

City of Audubon
Notes to Financial Statements
June 30, 2011

NOTE (1) Summary of Significant Accounting Policies

The City of Audubon is a political subdivision of the State of Iowa located in Audubon County. It was first incorporated in 1878 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Audubon has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in jointly governed organizations for which the City is not financially accountable or that the nature and significance of the relationship with the City are such that exclusion does not cause the City's financial statements to be misleading or incomplete. City representatives are members of the following boards and commissions: Audubon County Assessor's Conference Board, Audubon County Emergency Management Commission, Audubon County E911 Board, Audubon County Solid Waste Management Commission and Audubon County Airport Authority.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

City of Audubon
Notes to Financial Statements
June 30, 2011

NOTE (1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation - Continued

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

Nonexpendable net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Employee Benefits Fund accounts for the tax levy to support City employee benefits.

City of Audubon
Notes to Financial Statements
June 30, 2011

NOTE (1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation - Continued

The Local Option Sales Tax Fund is used to account for the receipts from the tax authorized by referendum and used for street construction and repairs.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through the Enterprise Funds.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's sanitary sewer system.

The City also reports the following additional proprietary fund:

An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City, and provided to other departments or agencies on a cost reimbursement basis.

C. Measurement Focus and Basis of Accounting

The City of Audubon maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

City of Audubon
Notes to Financial Statements
June 30, 2011

NOTE (1) Summary of Significant Accounting Policies – Continued

C. Measurement Focus and Basis of Accounting- Continued

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances:

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned – All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, disbursements exceeded the amount budgeted in the debt service function.

F. Property Tax Calendar

The City's property tax rates were extended against the assessed valuation of the City as of January 1, 2009, to compute the amounts which became liens on property on July 1, 2010. These taxes were due and payable in two installments on September 30, 2010 and March 31, 2011, at the Audubon County Treasurer's Office. These taxes are recognized as income to the City when they are received from the county.

City of Audubon
Notes to Financial Statements
June 30, 2011

NOTE (2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's cash, which consists of cash in bank and certificates of deposit, totaled \$1,222,941.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board (GASB) No. 3, as amended by Statement No. 40.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

NOTE (3) Bonds and Notes Payable

Annual debt service requirements to maturity of general obligation bonds and notes, urban renewal tax increment financing revenue bonds, and revenue notes are as follows:

Year Ended June 30,	General Obligation Bonds Principal	Urban Renewal Tax Increment Financing (TIF) Revenue Bonds Principal	Revenue Notes Principal	Total Principal
2012	\$ 115,000	\$ 65,000	\$ 122,000	\$ 302,000
2013	120,000	70,000	125,000	315,000
2014	125,000	70,000	129,000	324,000
2015	135,000	-	133,000	268,000
2016	140,000	-	138,000	278,000
2017-2021	505,000	-	751,000	1,256,000
2022-2023	235,000	-	333,000	568,000
Total	\$ 1,375,000	\$ 205,000	\$ 1,731,000	\$ 3,311,000

City of Audubon
Notes to Financial Statements
June 30, 2011

NOTE (3) Bonds and Notes Payable - Continued

Year Ended June 30,	Interest	Interest	Interest	Interest
2012	\$ 61,064	\$ 8,000	\$ 51,930	\$ 120,994
2013	55,675	5,530	48,270	109,475
2014	50,151	2,800	44,520	97,471
2015	44,361	-	40,650	85,011
2016	38,092	-	36,660	74,752
2017-2021	120,024	-	118,800	238,824
2022-2023	15,918	-	15,060	30,978
Total	\$ 385,285	\$ 16,330	\$ 355,890	\$ 757,505

The Code of Iowa requires that principal and interest on general obligation bonds be paid from the Debt Service Fund.

Urban Renewal Tax Increment Financing Revenue Bonds

The City issued \$620,000 of urban renewal tax increment financing revenue bonds in January 2004 for the purpose of defraying a portion of the costs of various construction and refurbishing projects within the urban renewal district. The bonds are payable solely from the TIF receipts generated by increased property values in the City's TIF district and credited to the Special Revenue, Urban Renewal Tax Increment Fund in accordance with Chapter 403.19 of the Code of Iowa. TIF receipts are generally projected to produce 100 percent of the debt service requirements over the life of the bonds. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for the purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City. Total principal and interest remaining on the bonds is \$221,330, payable through June 2014. For the current year, principal and interest paid and total TIF receipts were \$75,790 and \$46,293, respectively.

The City has a general obligation debt limit of approximately \$3,820,000 which was not exceeded during the year ended June 30, 2011.

Revenue Notes

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$2,066,000 in sewer revenue notes issued in September 2002, and \$600,000 in sewer revenue notes issued in December 2003. Proceeds from the notes provided financing for the construction of improvements to the sewer treatment plant. The notes are payable solely from sewer customer net receipts and are payable through 2023. Annual principal and interest payments on the notes were more than 110 percent of the net receipts. The total principal and interest remaining to be paid on the notes is \$2,086,890. For the current year, principal and interest paid and total customer net receipts were \$174,500 and \$153,695, respectively.

City of Audubon
Notes to Financial Statements
June 30, 2011

NOTE (3) Bonds and Notes Payable - Continued

The resolutions providing for the issuance of the revenue notes include the following provisions:

- a) The notes will only be redeemed from the future earnings of the sewer enterprise activity, and the note holders hold a lien on the future earnings of the fund.
- b) Sufficient monthly transfers shall be made to the sewer revenue note sinking account for the purpose of making the note principal and interest payments when due.

The resolution providing for the issuance of the \$600,000 revenue note includes the additional provision:

- c) Additional monthly transfers of 25% of the amount required to be deposited in the sewer sinking account shall be made to the sewer reserve account until a specific minimum balance has been accumulated. The account is reserved for payment of principal and interest should the sinking account have insufficient money available.

The City's net sewer receipts were insufficient to service operations and debt service requirements.

NOTE (4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2011, 2010, and 2009, were \$35,340, \$31,738, and \$30,720, respectively, equal to the required contributions for each year.

City of Audubon
Notes to Financial Statements
June 30, 2011

NOTE (5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences payable to employees at June 30, 2011, primarily relating to the General and Enterprise Funds, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$15,611

The liability has been computed based on rates of pay as of June 30, 2011.

NOTE (6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Enterprise: Water	\$ <u>50,000</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse resources.

NOTE (7) Commitments

Cemetery Contracts – The City has contracted for the upkeep of one cemetery through March 2013, for an annual cost of \$8,589, and mowing of another cemetery through March 2013, for an annual cost of \$13,296.

City Mowing Contract – The City has contracted for the upkeep of City grounds through February 2013, for an annual cost of \$8,400.

Water and Wastewater Operation Contract – The City has contracted for operations of the waterworks and wastewater treatment facilities through December 31, 2012 for an approximate annual cost of \$161,365, to be adjusted each April for inflation.

Solid Waste and Recyclables Hauling Contract – The City has contracted for solid waste and recyclable pickup within the City for a monthly cost of \$8,700 through December 2013.

City of Audubon
Notes to Financial Statements
June 30, 2011

NOTE (8) Risk Management

The City of Audubon is exposed to various risks of loss related to torts: theft, damage to and destruction of assets; errors and omission; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liabilities for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE (9) Deficit Fund Balance

At June 30, 2011, the City had the following deficit balances:

Special Revenue Fund:		
Urban Renewal Tax Increment	\$	139,592
Proprietary Fund:		
Sewer		<u>12,456</u>
	\$	<u>152,048</u>

The Urban Renewal Tax Increment Fund deficit will be eliminated with the receipts from tax increment financing collections. The City has increased sewer rates.

NOTE (10) Self Insurance Program

The City had established a self insurance medical program which is accounted for in the Insurance Fund (an internal service fund). This program provides employees health benefit coverage up to a maximum of \$30,000 per employee per year. The City purchases commercial insurance for claims in excess of this coverage and all other risks of loss. Settled claims have not exceeded the commercial coverage in any of the past three fiscal years.

All funds of the City participate in the program and make payments to the Insurance Fund based on actuarial estimates of the amounts needed to pay prior and current year claims. Claims are not recognized by the City until paid. The unpaid claims liability is based on Government Accounting Standards Board Statement No. 10, which requires that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. Change in the Fund's claims liability amount is shown below.

Unpaid claims and claims adjustment expenses, beginning of year	\$	1,121
Incurred claims and claim adjustment expenses		84,256
Payments		<u>85,377</u>
Unpaid claims and claims adjustment expenses, end of year	\$	<u>-</u>

City of Audubon
Notes to Financial Statements
June 30, 2011

NOTE (10) Self Insurance Program (Continued)

Beginning March 2011, the City discontinued its self insurance program and purchased commercial insurance coverage for its employee medical insurance.

NOTE (11) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 9 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through a fully-insured plan with United Healthcare. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$638 for single coverage and \$1,705 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2011, there were no plan members eligible for benefits.

NOTE (12) Subsequent Events

In September 2011, the City approved street repairs totaling approximately \$147,000.

Required Supplementary Information

City of Audubon
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
 Required Supplementary Information
 Year ended June 30, 2011

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts			
Property tax	\$ 826,772	-	-
Tax increment financing collections	46,293	-	-
Other city tax	230,636	-	-
Licenses and permits	2,157	-	-
Use of money and property	20,832	910	5
Intergovernmental	542,684	5,385	-
Charges for service	243,148	678,765	87,359
Special assessments	942	-	-
Miscellaneous	55,676	37,406	-
Total receipts	<u>1,969,140</u>	<u>722,466</u>	<u>87,364</u>
Disbursements			
Public safety	350,822	35,898	35,898
Public works	693,929	13,048	13,048
Health and social services	-	-	-
Culture and recreation	247,277	-	-
Community and economic development	51,097	-	-
General government	302,957	1,290	1,290
Debt service	253,030	-	-
Capital projects	-	-	-
Business type activities	-	646,436	35,249
Total disbursements	<u>1,899,112</u>	<u>696,672</u>	<u>85,485</u>
Excess (deficiency) of receipts over (under) disbursements	70,028	25,794	1,879
Other financing sources, net	<u>67,647</u>	<u>(50,000)</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) Disbursements and other financing uses	137,675	(24,206)	1,879
Balances beginning of year	<u>937,210</u>	<u>172,262</u>	<u>7,146</u>
Balances end of year	<u>\$ 1,074,885</u>	<u>148,056</u>	<u>9,025</u>

See accompanying independent auditors' report

Net	Budgeted Amounts		Final To Net Variance
	Original	Final	
826,772	826,367	826,367	405
46,293	-	58,900	(12,607)
230,636	184,982	184,982	45,654
2,157	2,500	3,700	(1,543)
21,737	40,000	26,900	(5,163)
548,069	198,000	234,000	314,069
834,554	879,700	793,500	41,054
942	-	-	942
93,082	203,583	492,350	(399,268)
2,604,242	2,335,132	2,620,699	(16,457)
350,822	358,380	394,880	44,058
693,929	776,814	739,514	45,585
-	1,000	1,000	1,000
247,277	265,795	261,470	14,193
51,097	79,155	82,155	31,058
302,957	119,850	381,150	78,193
253,030	252,881	252,881	(149)
-	10,000	10,000	10,000
611,187	731,385	671,385	60,198
2,510,299	2,595,260	2,794,435	284,136
93,943	(260,128)	(173,736)	267,679
17,647	-	-	17,647
111,590	(260,128)	(173,736)	285,326
1,102,326	821,351	1,109,472	(7,146)
1,213,916	561,223	935,736	278,180

City of Audubon
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2011

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board (GASB) Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon major classes of disbursements known as functions, not by fund or fund type. These functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$199,175. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements exceeded the amended budgeted amount in the debt service function.

Other Supplementary Information

City of Audubon
Schedule of Cash Receipts, Disbursements, and Changes in
Cash Balances - Nonmajor Governmental Funds
Year ended June 30, 2011

	Special Revenue		Debt Service
	Urban Renewal Tax Increment	Cemetery Trust	General Obligation Debt
Receipts			
Property tax	\$ -	-	169,300
Tax increment financing collections	46,293	-	-
Other city tax	-	-	8,958
Special assessments	942	-	-
Miscellaneous	-	1,730	-
Total receipts	47,235	1,730	178,258
Disbursements			
Culture and recreation	4,425	-	-
Community and economic development	21,942	-	-
Debt service	75,790	-	177,240
Total disbursements	102,157	-	177,240
Excess (deficiency) of receipts over (under) disbursements	(54,922)	1,730	1,018
Other financing sources			
Sale of general fixed assets	12,250	-	-
Net change in cash balances	(42,672)	1,730	1,018
Cash balances beginning of year	(96,920)	40,344	8,222
Cash balances end of year	\$ (139,592)	42,074	9,240

Cash Basis Fund Balances

Nonspendable - cemetery perpetual care	\$ -	-	-
Restricted for:			
Cemetery	-	42,074	-
Debt service	-	-	9,240
Unrestricted	(139,592)	-	-
	\$ (139,592)	42,074	9,240

See accompanying independent auditors' report

<u>Permanent</u>	
<u>Cemetery Trust</u>	<u>Total</u>
-	169,300
-	46,293
-	8,958
-	942
5,398	7,128
<u>5,398</u>	<u>232,621</u>
-	4,425
-	21,942
-	253,030
-	<u>279,397</u>
5,398	(46,776)
-	<u>12,250</u>
5,398	(34,526)
<u>99,000</u>	<u>50,646</u>
<u>104,398</u>	<u>16,120</u>
104,398	104,398
-	42,074
-	9,240
-	<u>(139,592)</u>
<u>104,398</u>	<u>16,120</u>

City of Audubon
Schedule of Indebtedness
Year ended June 30, 2011

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General obligation bonds and notes:			
Equipment	Sept 26, 2007	4.00 – 4.30 %	\$ 350,000
Streetscape	Sept 11, 2008	4.10 – 5.75 %	1,320,000
Total			
Urban renewal tax increment financing (TIF) revenue bonds:	Jan 1, 2004	3.60 – 4.00 %	\$ 620,000
Revenue notes:			
Sewer	Sep 15, 2002	3.00 %	\$ 2,066,000
Sewer	Dec 12, 2003	3.00 %	600,000
Total			

See accompanying independent auditors' report

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
270,000	-	40,000	230,000	11,273	-
<u>1,215,000</u>	<u>-</u>	<u>70,000</u>	<u>1,145,000</u>	<u>55,068</u>	<u>-</u>
<u>1,485,000</u>	<u>-</u>	<u>110,000</u>	<u>1,375,000</u>	<u>66,341</u>	<u>-</u>
<u>270,000</u>	<u>-</u>	<u>65,000</u>	<u>205,000</u>	<u>10,340</u>	<u>-</u>
1,476,000	-	95,000	1,381,000	44,280	-
<u>374,000</u>	<u>-</u>	<u>24,000</u>	<u>350,000</u>	<u>11,220</u>	<u>-</u>
<u>1,850,000</u>	<u>-</u>	<u>119,000</u>	<u>1,731,000</u>	<u>55,500</u>	<u>-</u>

City of Audubon
Bond and Note Maturities
June 30, 2011

General Obligation Bonds and Notes						
Year Ending June 30,	Equipment		Streetscape			
	Issued Sept 26, 2007		Issued Sept 11, 2008			
	Interest Rate	Amount	Interest Rate	Amount	Total	
2012	4.10 %	\$ 40,000	5.00 %	\$ 75,000	\$ 115,000	
2013	4.15 %	45,000	4.88 %	75,000	120,000	
2014	1.20 %	45,000	4.88 %	80,000	125,000	
2015	4.25 %	50,000	4.88 %	85,000	135,000	
2016	4.30 %	50,000	4.10 %	90,000	140,000	
2017	-	-	4.20 %	95,000	95,000	
2018	-	-	4.25 %	95,000	95,000	
2019	-	-	4.30 %	100,000	100,000	
2020	-	-	4.35 %	105,000	105,000	
2021	-	-	4.40 %	110,000	110,000	
2022	-	-	4.45 %	115,000	115,000	
2023	-	-	4.50 %	120,000	120,000	
Total		\$ 230,000		\$ 1,145,000	\$ 1,375,000	

Revenue Notes					
Year Ending June 30,	Sewer		Sewer		Total
	Issued Oct. 15, 1999		Issued Feb. 28, 2003		
	Interest Rate	Amount	Interest Rate	Amount	
2012	3.00 %	\$ 25,000	3.00 %	\$ 97,000	\$ 122,000
2013	3.00 %	25,000	3.00 %	100,000	125,000
2014	3.00 %	26,000	3.00 %	103,000	129,000
2015	3.00 %	27,000	3.00 %	106,000	133,000
2016	3.00 %	28,000	3.00 %	110,000	138,000
2017	3.00 %	29,000	3.00 %	113,000	142,000
2018	3.00 %	30,000	3.00 %	116,000	146,000
2019	3.00 %	30,000	3.00 %	120,000	150,000
2020	3.00 %	31,000	3.00 %	123,000	154,000
2021	3.00 %	32,000	3.00 %	127,000	159,000
2022	3.00 %	33,000	3.00 %	131,000	164,000
2023	3.00 %	34,000	3.00 %	135,000	169,000
Total		\$ 350,000		\$ 1,381,000	\$ 1,731,000

See accompanying independent auditors' report

**Urban Renewal Tax Increment
Financing (TIF) Revenue Bonds**

Issued Jan 1, 2004		
Interest Rate		Amount
3.80 %	\$	65,000
3.90 %		70,000
4.00 %		70,000
-		-
-		-
-		-
-		-
-		-
-		-
-		-
	\$	<u>205,000</u>

City of Audubon
Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds
For the Last Seven Years

	2011	2010	2009
Receipts			
Property tax	\$ 826,772	697,584	591,287
Tax increment financing collections	46,293	128,054	31,636
Other city tax	230,636	213,365	219,178
Licenses and permits	2,157	793	466
Use of money and property	20,832	27,359	38,248
Intergovernmental	542,684	447,545	562,377
Charges for service	243,148	229,816	209,538
Special assessments	942	6,007	4,260
Miscellaneous	55,676	95,015	106,178
Total	\$ <u>1,969,140</u>	<u>1,845,538</u>	<u>1,763,168</u>
Disbursements			
Operating:			
Public safety	\$ 350,822	340,427	345,091
Public works	693,929	859,937	1,031,742
Health and social services	-	-	-
Culture and recreation	247,277	240,922	260,750
Community and economic development	51,097	43,488	33,881
General government	302,957	83,128	87,854
Debt service	253,030	255,225	240,332
Capital projects	-	7,656	361,926
Total	\$ <u>1,899,112</u>	<u>1,830,783</u>	<u>2,361,576</u>

See accompanying independent auditors' report

<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
502,392	450,807	567,388	533,115
84,848	144,011	33,901	150,445
204,702	175,273	180,157	224,224
508	1,583	3,307	2,203
84,618	58,501	47,753	20,597
600,094	254,803	247,524	265,004
196,688	202,272	198,176	196,781
20,706	31,377	12,686	11,118
120,924	165,709	93,564	247,728
<u>1,815,480</u>	<u>1,484,336</u>	<u>1,384,456</u>	<u>1,651,215</u>
487,808	350,862	296,651	343,759
913,310	606,413	553,816	579,262
1,000	1,000	1,000	1,000
265,913	264,595	326,173	289,370
166,893	159,517	41,794	32,098
89,177	137,370	86,480	108,560
114,576	23,635	204,845	207,450
1,107,220	-	-	65,281
<u>3,145,897</u>	<u>1,543,392</u>	<u>1,510,759</u>	<u>1,626,780</u>

City of Audubon



Marilyn Schroer, CPA
Diane McGrain, CPA
Jim Menard, CPA

November 16, 2011

Independent Auditors' Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the remaining fund information of the City of Audubon, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated November 16, 2011. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Audubon's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of City of Audubon's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Audubon's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified.

Continued...

City of Audubon
Independent Auditors' Report on
Internal Control and Compliance

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of City of Audubon's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part I of the accompanying Schedule of Findings to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Audubon's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Audubon's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit City of Audubon's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Audubon and other parties to whom the City of Audubon may report, including federal awarding agencies and pass through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Audubon during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Schroer & Associates, P.C.

City of Audubon
Schedule of Findings
Year Ended June 30, 2011

Part I: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

I-A-11 Segregation of Duties

Comment – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The same person does the utility billing, cash receipts listing, bank deposits and posting of cash receipts to utility accounts. Controls over cash receipts at the swimming pool are minimal.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this. Utility customers pay mostly by check and will question if a payment is not correctly posted to their account.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Audubon
Schedule of Findings
Year Ended June 30, 2011

Part II: Other Findings Related to Statutory Reporting:

II-A-11 Certified Budget

Comment - Disbursements during the year ended June 30, 2011, exceeded the amended budgeted amount in the debt service function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered under an annual or continuing appropriation.

Recommendation - The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in sufficient amounts in the future, if applicable.

Conclusion - Response accepted.

II-B-11 Entertainment Expense

We noted no disbursements for parties, banquets or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

II-C-11 Travel Expense

No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-11 Business Transactions

No business transactions were noted between the City and City officials or employees.

II-E-11 Bond Coverage

Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-11 Council Minutes

No transactions were found that we believe should have been approved in the Council minutes but were not.

City of Audubon
Schedule of Findings
Year Ended June 30, 2011

Part II: Other Findings Related to Statutory Reporting Continued:

II-G-11 Deposits and Investments

We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

II-H-11 Revenue Note

Comment – The City has a deficit fund balance in the Sewer Fund which violates the provision of the sewer revenue bond resolution.

Recommendation – The City should establish rates which will generate user fees sufficient to service the revenue debt and the operations of the City's sanitary sewer system.

Response – We raised sewer rates in July 2011.

Conclusion – Response acknowledged. The increase in rates may not be sufficient.

II-I-11 Financial Condition

Comment – At June 30, 2011, the City has the following deficit fund balances:

Special Revenue Fund:	
Urban Renewal Tax Increment	139,592
Proprietary Fund:	
Sewer	<u>12,456</u>
	<u>\$ 152,048</u>

Recommendation – The City should monitor the activity in these funds in order to eliminate the deficits.

Response – We will eliminate the deficits with tax increment financing collections. We have raised sewer rates again in July 2011.

Conclusion – Response accepted.

II-J-11 Inactive Capital Projects

Comment – The Capital Projects Fund – Streetscape Account is inactive.

Recommendation – The City should make the appropriate transfer to close the account.

Response – We will do so.

Conclusion – Response accepted.